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Industrial Output and GNP for the First Five Months of 1991

Prime Minister Valentin Pavlov and some of his subordinates have been discussing industrial output in the Soviet Union. Pavlov, who had predicted that things would improve by the middle of the year, now says that he sees some improvement. He is particularly pleased by the fact that industrial output in May was off by the same percentage as it was in April. In other words the rate was down 5.6 or 6.6% in both months and that means that the rate of decline is no longer increasing.

Leonid Abalkin is somewhat less optimistic. He reports that national income was down 11% during the first five months of the year, that suggests a slight increase although not enough to indicate the accelerating pace of collapse that seemed to be evident earlier this year.

The reason for what seems to be a slowing of the decline is the fact that the coal miners went back to work. Thus while coal output was down to 88% of what it had been during the first five months of 1990, output in May was down only 93%. Oil output by the way was down 9% which is about the same as the drop in April. Pavlov takes special pleasure in suggesting that those who were predicting that the drop in GNP would equal 20% or more are likely to be proven wrong.

That of course does not mean that suddenly things are better. It is just that they do not seem to be quite as bad. Some goods by now are beginning to appear in the stores. That is not because supplies have been increased. In fact the food supplies seem to be down and the Soviets report that the area sown to grain is down 8 million hectares from what it was five years ago and the cattle herd is down 5 million head from five years ago. What has been happening is that because prices were raised so high in April, people simply have not been buying. By reducing demand the Soviets have solved one half of the supply problem in the country. But there are still complaints that because the benefits from the higher prices did not go to the suppliers inside the Soviet Union directly, the basic problem of increasing supply still has not been resolved.

New data indicate that one out of every three tons of grain the Soviets utilize comes from abroad. The same proportion holds for the meat consumed. Forty percent of the dried milk in the Soviet Union is imported. There are again concerns about the harvest for this coming year because there was a particularly severe drought in Kazakhstan, the Caucasus and the Ural mountains. Based on early estimates, the grain harvest this year is likely to total only 180-190 million tons--down from 240 million tons last year.

All of this of course is made more complicated by the fact that the budget continues to be out of balance. Abalkin estimates that the combined union and republic deficits total 210 to 242 billion rubles versus the planned deficit of 52 billion rubles. Pavlov, the Prime Minister, reports now that estimates show that the crackdown on the

sale of alcohol resulted in a loss of 200 billion rubles in tax revenues that helped to set off the budget crisis and the subsequent inflation.

The Soviet Union not surprisingly continues to have problems with its foreign trade. Overall foreign trade is down by about 1/3 from what it was last year. The East European countries in particular have apparently been very badly hurt. Exports from the Soviet Union are down 16% whereas its imports are down 45%. Most of those suppliers of imports to the Soviet Union were in Eastern Europe and that helps to explain why some of their economic problems have now become more serious. The slash in imports was designed in part to reduce the size of the foreign debt. Pavlov reports that the size of the Soviet hard currency debt fell from 34 billion rubles in January 1990 to 30 billion rubles in May 1991. The short term debt he reports has fallen from 10 billion rubles to 1 billion rubles in the same period. Nonetheless he also acknowledges that the Soviet Union is in arrears by 2.5 billion rubles as of June 1. Elimination of the arrears is complicated by the fact that because of problems at home in the domestic industry, oil exports are down 45% for the first five months and refined oil products exports were down 54%.

Whatever Pavlov's view, the trends on the foreign exchange markets suggest that things have continued to deteriorate. At an auction held in the Soviet Union on June 18, the ruble-dollar exchange rate required 42 rubles to purchase one dollar. It is the first time the exchange rate which for tourists is set officially at about 27 rubles per dollar rose to over 40 rubles.

The Soviets have also released some miscellaneous figures that might be of interest to our readers. In 1990, 1770 enterprises had strikes. That resulted in an average of 40,000 people a day out on strike. Pavlov also reports that military expenditures as a percentage of GNP in 1988 were 14%. Heretofore Gorbachev has insisted they were no more than 7%.

FOREIGN EXCHANGE RATES
as of July 3, 1991
Quoted in rubles

	Official Rate	Commercial Rate
£100 Sterling	98.71	296.13
100 Aust. Sch.	4.77	14.31
100 D. Marks	33.56	100.68
100 D. Guilders	29.81	89.43
100 U.S. Dollars	60.80	182.40
100 Fr. Francs	9.91	29.73
1,000 Jap. Y	4.41	13.23
10,000 It. Lire	4.52	13.56
100 Swiss Frs.	39.06	117.18
100 Nor. Kroner	8.62	25.86
1,000 Bel. Frs.	16.32	48.96
100 Sw. Kronor	9.30	27.90

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. . . But Don't Toss Money at Problems

By MARSHALL I. GOLDMAN

SINCE 1989, Mikhail S. Gorbachev has embraced — only to discard — about 10 economic reform plans. Unlike earlier plans, the latest one includes a role for the West. But it has evoked severe criticism in — and out — of the Soviet Union. As Oleg Bogomolov, once one of Mr. Gorbachev's closest advisers, put it, why help "the Soviet Union's most unpopular politician"? Such help, he warned, "was essentially support for the Communist party, the military-industrial complex and the K.G.B."

Sometimes throwing money at a problem may be counterproductive. This may be one of those times. Offering billions a year in aid to Mr. Gorbachev would probably hamper market reform because the Soviet Union cannot absorb such large sums productively. Investment from the foreign private sector would be more productive.

Indeed, the odds are that any influx of loans and grants would just be squandered. The Soviet Union has no wholesale markets; a disproportionately large share of its industry is unprofitable, designed for the production of armaments; politicians still haven't decided how to divide power between the republics and the central Government, and Mr. Gorbachev is unpopular at home.

As the London summit meeting approaches, Mr. Gorbachev seems to have reduced the scope of his funding requests. Even still, if the West were to provide aid to the Soviet Union, that would not be like helping postwar France and Germany, or even Poland in 1990: the issue then was reviving what were once viable market systems. In the Soviet Union, the bulk of industrial enterprises should be abandoned.

Unless the Soviet Union takes several steps, even limited support would be wasted.

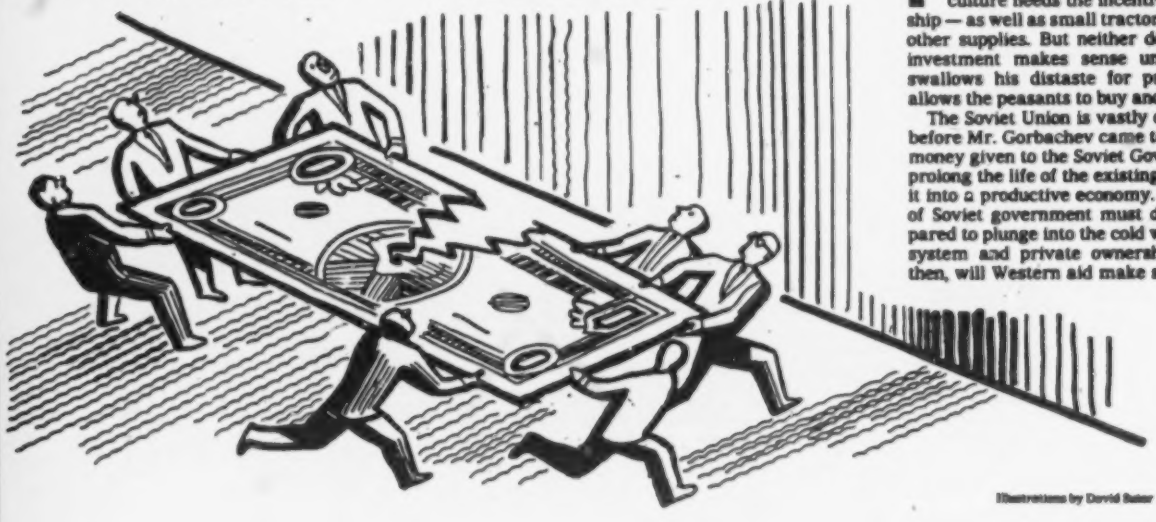
First, Soviet authorities must decide if they want foreign investors and if they can tolerate profit-making by a foreign partner. Chevron and Amoco, for example, offered to invest heavily in oil exploration and extraction projects. Imagine the shock last month when Chevron found itself the target of attacks in the Soviet press, criticized for, among other things, putting in $21 million, against nearly $1 billion from the Soviet partner. Other investors, even McDonald's, have been attacked. Operating in the Soviet Union is not easy.

Soviet authorities must then also decide who has the right to sign foreign contracts and at what level of government. It does not inspire confidence when agreements reached in Moscow are rescinded at the republic level. If officials in the republics and Moscow cannot decide how to work with private investors, it is unlikely that they will use government or World Bank funding effectively.

FINALLY, the Soviet Union must decide what it wants to do about agriculture. Soviet agriculture needs the incentive of private ownership — as well as small tractors, pickup trucks and other supplies. But neither domestic nor foreign investment makes sense until Mr. Gorbachev swallows his distaste for private farming and allows the peasants to buy and sell their own land.

The Soviet Union is vastly different than it was before Mr. Gorbachev came to power. But foreign money given to the Soviet Government is likely to prolong the life of the existing system, not change it into a productive economy. The different levels of Soviet government must decide they are prepared to plunge into the cold waters of the market system and private ownership. Then, and only then, will Western aid make sense. ■

Marshall I. Goldman is professor of economics at Wellesley College and author of the forthcoming "What Went Wrong With Perestroika."



Illustrations by David Suter

A Voice From **Belgrade**

Yugoslavia's Trap of Ethnic Confrontation

By ALEKSA DJILAS

BELGRADE, Yugoslavia

THE scope of last week's violence in Yugoslavia astonished many people, who found it hard to believe that friendly and cheerful Yugoslavs seemed to be beginning a full-scale civil war. But some were not surprised. Tanks rolling, soldiers and civilians killed, military officers deserting, state authorities paralyzed, Yugoslav diplomats assessing events differently depending on the ethnic group they belonged to — this is exactly what numerous students of Yugoslav affairs have been expecting for a number of years.

They consider Yugoslavs to be people with weak political institutions and with few liberal democratic traditions — negotiation, compromise and gradual reform having been only a peripheral part of Yugoslav political culture. To them, Yugoslavs seem more passionate than reasonable, incapable of controlling ethnic pride and prone to consider success in ethnic rivalry more important than any gain from cooperation. While ready to die for freedom in war, Yugoslavs appear to these critics to be ill at ease with all those little liberties that a civilized political community is based on.

Judging Yugoslavs in such a way is unsparing. But it is also correct.

When the different South Slav (Yugoslav) groups united as one country in 1918, they were in many respects one nation. Their ethnic characteristics and languages were identical or very similar. And these groups were much more different from any of the nations neighboring Yugoslavia than from each other. The idea of Yugoslav unity was strong, having been championed by many enlightened 19th-century South Slav intellectuals.

Yet the various groups also had separate national ideologies based on collective historical memories and state traditions, some going back to medieval times, that were often mixed with legends and myths. Like elsewhere in Central and Eastern Europe there was a strong tendency to glorify one's own group as heroic and creative and to see others in stereotypes of cowardice and backwardness.

Political traditions before unification, though containing strong elements of liberalism, were primarily authoritarian. This strengthened the tendency of national movements toward expansion and hegemony over those who were not of the same ethnic group. In the years between the world wars, liberal democratic political institutions never became deeply rooted and could not harmonize ethnic interests to create one Yugoslav state loyalty.

The official ideology of unity was supported primarily by conservative and centralist Serbian institutions: the monarchy, the Army, the Serbian Orthodox Church and Serbian political parties. This Serbian predominance exacerbated national conflicts, and was particularly resented by Croats, the second largest nation. Serbian-Croatian conflict choked the development of liberal democratic political institutions and finally paralyzed the working of the Parliament. This allowed the authoritarian forces, especially the crown, to limit or suppress parliamentary government.

> Megalomania, paranoia and 'pseudo-romantic nationalist kitsch' undermine unity.

Croatian and Serbian national ideologues, and to a lesser extent those of other groups, struggled intransigently for the maximum enlargement of national power. All else — economy, culture, political institutions — was of importance only to the extent that it might increase that power. The leaders of the groups often saw themselves as having pseudo-religious national missions, and refused to make compromises, except as temporary expedients. They spoke of the tragic and heroic destiny of their groups in tones of morbid self-pity for sufferings imagined as well as real. Chauvinistic pride was combined with a desire for revenge.

Support for Yugoslav unity declined in the interwar period partly because it was perceived by many non-Serbs as serving solely the interests of the right-wing Serbian establishment. But an even more important reason was the crisis of liberal-democratic political culture and institutions. On those rare occasions when the various political parties fought for the rights of individuals, for free speech, for the power of Parliament, they had no difficulty in reaching compromises about ethnic issues and accepting the common Yugoslav state.

After World War II, the West supported Tito's authoritarian rule and that of his successors, partly because this seemed a barrier to destructive nationalism. Yet the West failed to see that Tito and the Communists were not creating lasting political institutions through which different groups might resolve their conflicts, nor were they establishing a climate of tolerance and compromise, without which ethnic ideologies cannot be contained.

The Communists, as it is sometimes said in Yugoslavia, succeeded only in conquering, not in convincing. Simultaneously with fighting German and Italian occupiers in 1941-1945, they fought and defeated their opponents in a civil war. Many who fought the Communists then were nationalistic extremists who perpetrated massacres of other groups. But under the monolithic structure of postwar Communist power, national ideologies were preserved in their intransigent prewar form.

During 1990, free elections were held for the first time since 1927. But the fact that four republics are now ruled by non-Communists and two by reformed Communists is of little importance. All six regimes are primarily nationalistic. While they allow more freedom than the Communists did, they still could not be called liberal democratic. In the name of unity and supposedly national goals, they are limiting the media's freedom, restricting the opposition, and preserving state control over the economy.

These regimes glorify the history of their groups and engage in chauvinistic propaganda against the others. Their megalomania is inevitably accompanied by paranoid delusions about omnipresent enemies and worldwide conspiracies. Especially in Croatia and Serbia, they demand territories of other republics where members of their groups live, disregarding the fact that these people are often a minority. In culture, they promote pseudo-romantic nationalist kitsch while suppressing the cultural rights of minorities. Drunk with power, they are hastily creating paramilitary forces, asking few questions about the character of the volunteers.

Communism failed to create, or even created the very opposite of, a free individual, capable of thinking critically about himself and his group. And such an individual is the only barrier to nationalist extremism. That there are so few such people is the main reason that Yugoslavia is disintegrating and that there may even be — some say there already is — a civil war. But if history proves merciful toward Yugoslavs, and efforts at arranging a lasting cease-fire succeed, this may allow them the time to develop genuine liberal democracy and the self-critical spirit that is its corollary. Perhaps then they could not only avoid civil war but also preserve Yugoslav unity.

Aleksa Djilas is a Yugoslav historian and sociologist and author of "The Contested Country: Yugoslav Unity and Communist Revolution 1919-1953."